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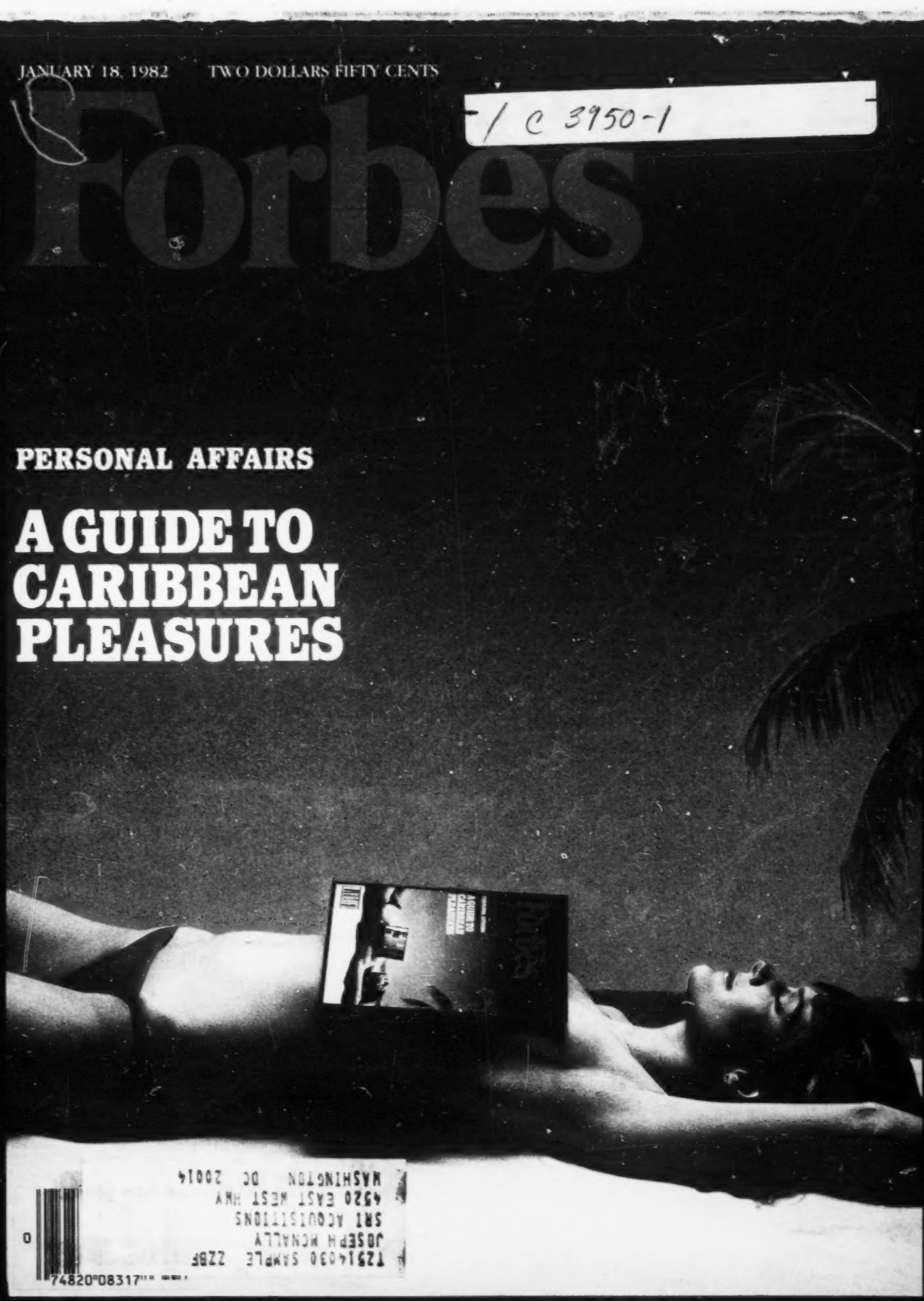
Forbes

PERSONAL AFFAIRS

A GUIDE TO CARIBBEAN PLEASURES



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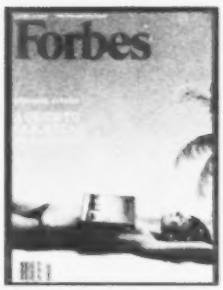

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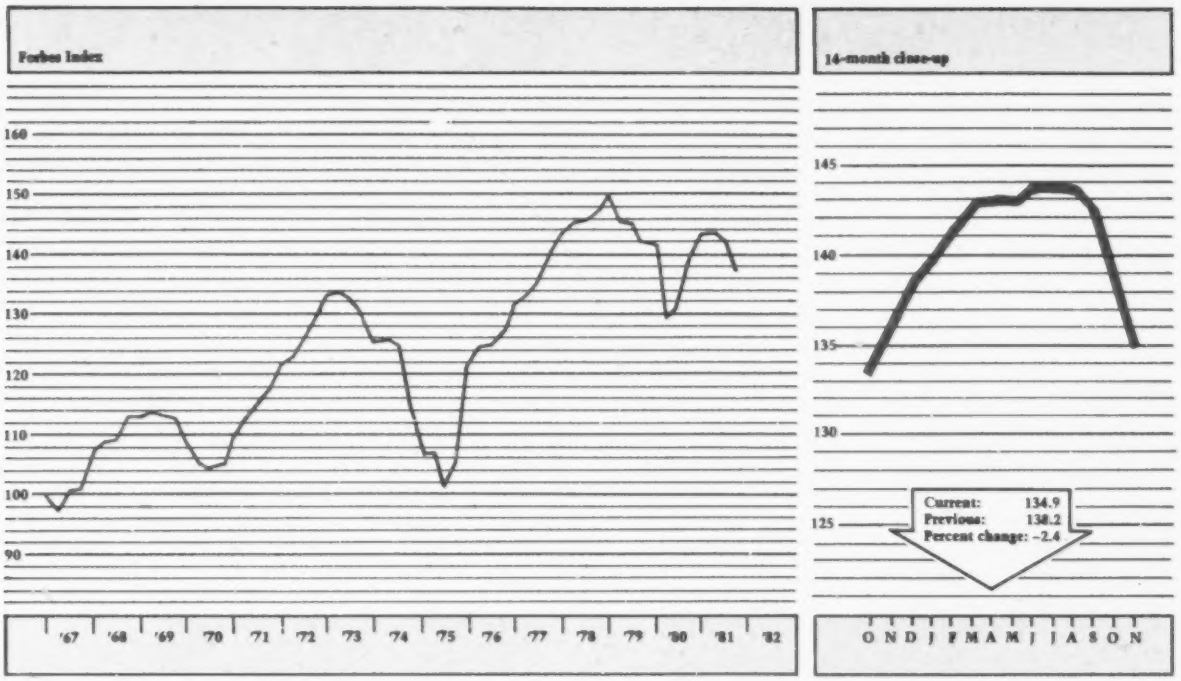
The Forbes Index



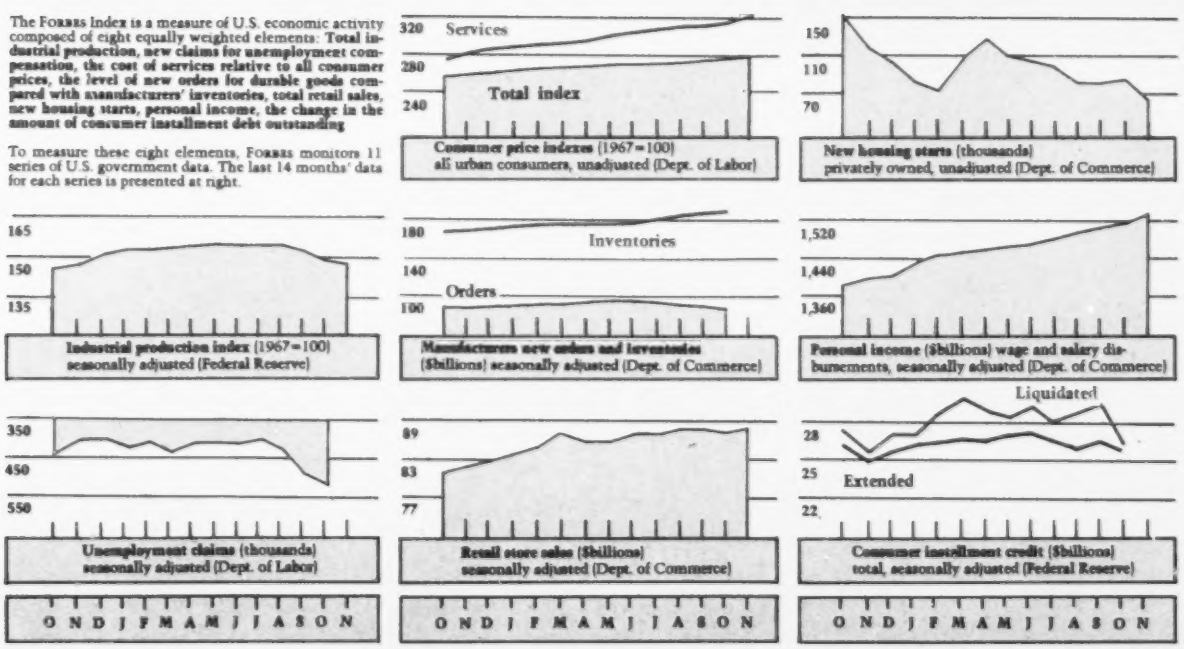
Housing takes a dousing. The mammoth 24.9% fall in new housing starts was the main reason the Forbes Index declined once again. Also contributing to the slide was a 2.1% drop in industrial production. This month, using the latest available figures for all eight components, the index dropped 2.4%. Nevertheless, a couple of bright spots were a 0.8% gain in retail store sales as well as a 0.7% rise in personal income.

What does it all mean? The figures show the recession is clearly deepening. You can expect further declines in the index for the foreseeable future. The big worry centers on the severity and length of the downturn.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: **Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.**

To measure these eight elements, Forbes monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



Production costs in the Broadway theater have escalated so rapidly that tickets now cost $30 and individual backers no longer suffice for raising capital.

Curtain!

By James Cook

"THIS IS A BUSINESS of miracles," Harold Prince, Broadway's most renowned producer-director, said last month. "You kind of sit back every time and hope it will happen." It did two years ago, with *Evita*, which despite some discouraging reviews went on to become the biggest hit in Prince's 28-year theatrical career, with 3 companies touring the U.S. and another 18 worldwide.

This time, however, a month or so back, the miracle didn't happen. Prince's newest musical, *Merrily We Roll Along*, came as close to being an open-and-shut flop as any he has produced. The show traced the careers of three theater people over 25 years and traced them backwards—the characters grow younger as the play unfolds. Prince thought of the thing as a show for kids and cast all the parts with teenagers. Frank Rich of the *New York Times* didn't like it and neither did most of the other print and television critics. Only Clive Barnes, former critic of the *Times*, gave the show a rave, in his review in the New York *Post*. "It's one of the ironies," says Prince, in a town where the *Times* review makes or breaks most productions. "If Clive Barnes were critic for the *Times* still, *Merrily We Roll Along* would be the smash of the season." Maybe so, but at a top price of $30 a ticket the public decided not to take a chance. *Merrily* opened on Nov 16. It closed on Nov. 28.

Merrily was in part a casualty of the seemingly endless escalation of salaries, theater rents and union extortion in the Broadway segment of the legitimate theater. At a time when it costs $2 million or more to mount a musical, *Merrily* was budgeted for a mere $1.5 million. With money tight, Prince decided he couldn't afford to try out the show first in Boston or Philadelphia. "You lose money," he says, "vast sums of money, possibly another $750,000. So you weigh that against working in a goldfish bowl in New York and at least staying within the budget."

During the New York previews the audiences began walking out at intermission. Prince replaced the leading man, fired the choreographer. Some of these mistakes could have been corrected in out-of-town tryouts. It took so long to get the show right that Prince had to postpone the opening twice. By the time *Merrily* opened in mid-November, two weeks behind schedule, he had exhausted the funds from the advance sale that might have permitted him to build an audience in the face of lukewarm reviews.

Looking back now, Prince thinks it would have been better to bring in the show the way he brought in *Evita*—16 weeks in Los Angeles and San Francisco shaping it up and then opening in New York. "There's a subscription series out there," he says, "so you play to terrific business for a long stretch of time." In short, you use the provincials as guinea pigs, a practice as old as the theater itself.

For a while Prince had hoped to pull off a cable-television deal that would provide the funds that would keep the show running. But that didn't work out. Laments Prince: "If we were guaranteed another five or six weeks, we might have been able to turn the thing around, just by word of mouth, but you'd have had to be willing to sustain anywhere from a $750,000 to

Producer-director Harold Prince
At $1.5 million a show, private investors are no longer enough.

The money in musicals

During the past 28 years, producer-director Harold Prince has presided over no fewer than 23 major Broadway musicals, more than half of which have made money. Making money is no longer so easy, however, as the table below makes clear.

Production costs have gone through the roof—from $250,000 for *Pajama Game* to $1.5 million for *Merrily We Roll Along*—so the risks have risen. But so have the rewards. *Merrily We Roll Along* dropped $1.5 million virtually overnight. But *Evita* has become Prince's biggest moneymaker, grossing over $33 million so far on a $1.5 million investment.

Musical	Opened in New York	Broadway performances	Capitalization (thousands)	% gain/ loss
Pajama Game	5/13/54	1,060	250	395
Damn Yankees	5/5/55	1,012	250	263
New Girl in Town	5/14/57	439	300	24
West Side Story	9/26/57 4/27/60	1,025	300	411*
Fiorello	11/23/59	800	300	90*
Tenderloin	10/17/60	214	350	–26
A Funny Thing Happened on the Way to the Forum	5/8/62	975	300	125*
She Loves Me	4/23/63	303	300	–74*
Fiddler on the Roof	9/21/64	3,242	375	1,437*
Flora the Red Menace	5/11/65	87	400	–95
It's a Bird, It's a Plane, It's Superman	3/29/66	128	400	–100
Cabaret	11/27/66	1,166	500	248*
Zorba	11/17/68	305	500	–27*
Company	4/27/70	706	550	18*
Follies	4/4/71	522	700	–95*
A Little Night Music	2/25/73	601	650	48*
Candide	3/5/74	741	450	–70*
Pacific Overtures	1/11/76	193	650	–100*
Side by Side by Sondheim	4/18/77	384	250	—*
On the Twentieth Century†	2/19/78	460	1,064	–83*
Sweeney Todd†	3/1/79	557	990	–50*
Evita†	9/25/79	914‡	1,500	NA*
Merrily We Roll Along	11/16/81	16	1,500	–100

*Revenue still being received. †Directed and managed by Prince, produced by others. ‡Still running. NA: Not available.

Merrily We Roll Along, *Act I, Scene 2*
Out of the goldfish bowl, an open-and-shut flop.

a $1 million loss."

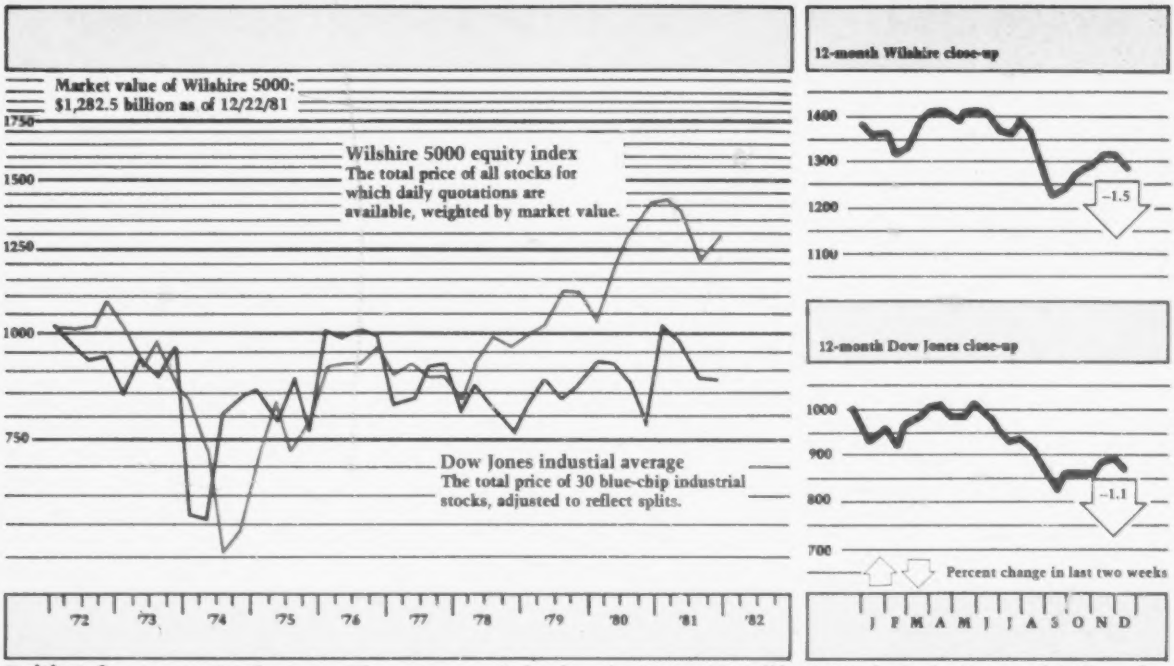
Merrily's financial problems reflect the drastic changes inflated costs have brought to show business in recent years *(see table)*. Production costs are so high that producers can no longer depend on the small stage-struck investor to finance an offering. In financing *Merrily*, Prince turned for the first time to corporate investors for the bulk of the money. His cadre of loyal investors put up $500,000 of the $1.5 million capitalization. The rest came from Britain's Lord Grade (FORBES, *Dec. 21, 1981*) and ABC.

Corporate investors like Lew Grade, Warner and ABC are a lot less starry-eyed than individual angels. They worry about return on investment and positioning themselves for subsequent movie and television rights, not about whether they have been invited to auditions, openings and cast parties. This, Prince says, is certain to shape the kinds of shows that get produced—more conventional, less imaginative shows, he fears, than he has produced over the years. "I said to Steve [Stephen Sondheim, *Merrily*'s composer] the other day," Prince says, "we were lucky, we got in under the wire. We started out 25 years ago. It's heartbreaking to think of the young lyricists and librettists who would like to write dangerously for the theater and can't get the money."

Prince doesn't expect to have such problems himself. Though he has had his share of flops, few of them spectacular, he has also had some of the biggest successes in theater history—*Fiddler on the Roof, Cabaret, A Little Night Music*. "It's always a case of my doing a big hit and then a couple of worthy projects that don't pay off." In the past, however, his flops have generally run, at least for a while. But *Merrily* wound up with only 60 performances including 44 previews and a $1.5 million loss.

Prince is already at work on his next show, book by Comden and Green *(On the Twentieth Century)*, music by Larry Grossman *(Minnie's Boys)*. It's about what happens after Nora slams the door in Ibsen's *A Doll's House*. This one will cost around $2.5 million, and Prince will produce with Robert Fryer, raising part of the money from corporate investors. The plan is to open in California this summer and come into New York in the fall. "The summer route seems the solution to the economic problem," Prince says. "It plays four months, shakes down and comes in kind of comfortable." ■

The Forbes/Wilshire 5000 Review



Waiting for some good news. The crisis in Poland, renewed tension in the Middle East, gloomy economic statistics and forecasts and depressed stocks ripe for year-end tax selling gave investors plenty to think about as 1981 went into the history books. Not surprisingly, the broadly based Wilshire index ran in the red during the most recent four-week period. But look on the bright side: The market faced a pile of adversity and the Wilshire dropped only 0.9%. This resilience is a sign that the near-term trend is likely to be on the up side.

Another indicator that the majority of investors are holding firm is the unusually tight range of two-week returns on major market indicators. Only 0.5% separates the S&P's 500, off by 1.6%, from the Dow and ASE market value index, both down 1.1%.

Wall Street wants the new year to be better. Growth stocks were hit especially hard in 1981. Our market focus shows that over the last 52 weeks, high-P/E stocks took a 14% drubbing while low-P/E stocks outperformed the market and advanced 4.6%. Low-volatility stocks, meanwhile, show a 12.9% gain, while high-volatility issues were barely in the black.

So chalk up another victory for advocates of unexciting bargain-priced securities—but watch out when the market gets hot. These highflyers presently cruising at low altitudes are likely to rack up the biggest gains.

Close-up On The Equity Markets

Performance of five leading indexes

Percent change	Wilshire 5000	Dow Jones industrials	NYSE Composite	ASE Market Value Index	NASDAQ Composite
in last 4 weeks	-0.9	0.2	-0.8	-0.9	-1.7
in last 52 weeks	-8.0	-9.0	-8.2	-9.3	-2.1

Stock performance based on five key investor yardsticks

Percent change	Volatility*		P/E multiple		Dividend yield		Growth profile†		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	-1.0	-1.2	-2.9	-1.6	-1.3	-1.1	-1.5	-1.9	0.5	-0.9
in last 52 weeks	0.1	12.9	-14.0	4.6	9.8	5.0	1.8	7.0	-2.0	13.0

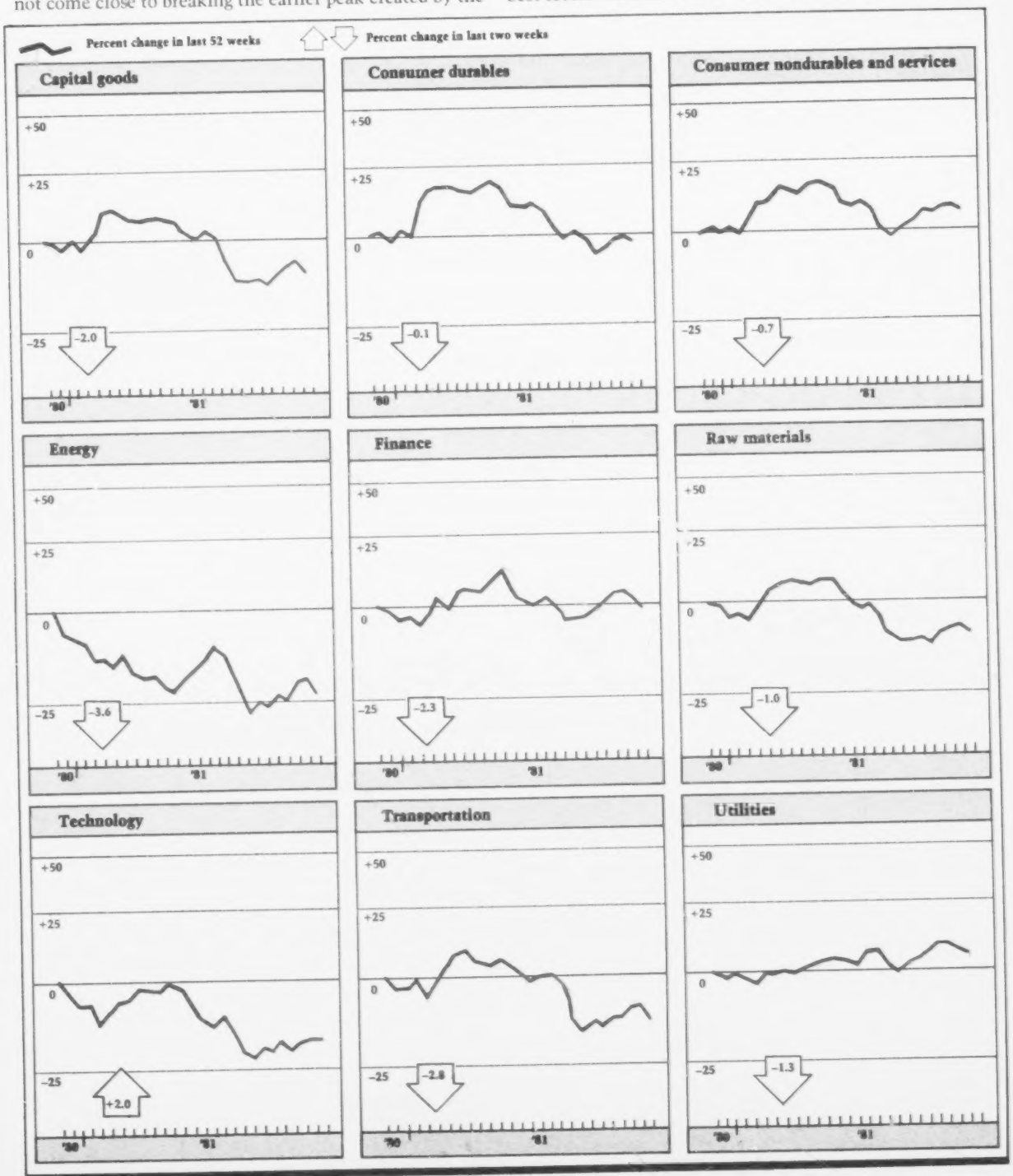
*A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations; low-volatility issues are more stable.
†A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 12/22/81. Prepared by Wilshire Associates, Santa Monica, Calif.

The zip comes from technology. Eight sectors fell behind during the last two weeks, but technology companies managed to show a 2% gain. On the other hand, the cooled-down energy issues showed the biggest loss. They were down 3.6%.

Look at the graph of the energy sector. It shows that the rally caused by the late-1981 bidding war for Marathon did not come close to breaking the earlier peak created by the Conoco fracas. Still, the upward sawtooth pattern could indicate that the worst is over.

Even with the recent uptrend, however, energy stocks were the biggest losers over the past 52 weeks. The sector is down 25.5%. Minor spurts in technology stocks, meanwhile, have not been enough to pull this group out of its next-to-last-place with a 52-week drop-off of 16.3%. The best sector: consumer nondurables and services.



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